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SUBJECT: ZIMBABWE DONOR DIALOGUE - PLANNING FOR RE-ENGAGEMENT,
STABILIZATION, AND RECOVERY

REF: HARARE 894

SUMMARY

¶11. A number of donor meetings have taken place in the last two weeks to plan for re-engagement, stabilization, and recovery in Zimbabwe when political conditions permit. On September 25, heads of assistance agencies met to discuss and come to agreement on a range of issues, including: the nature of a recovery program; practical application of the common set of principles and benchmarks drafted to determine when and to what extent it is appropriate to implement expanded assistance; issues of coordination; and bilateral programmatic interests and funding expectations. A report of the discussion and key agreements will be discussed at the high-level donor meeting in Ottawa on October 30. On September 26, Morgan Tsvangirai and members of his technical transition team and the Government Strategic Unit (GSU), which has been established as an advisory and operational arm of the Office of the Prime Minister (OPM), met with the Policy Committee of the World Bank Multi-Donor Trust Fund (MDTF). Tsvangirai called the meeting to convey to donors the immediate priorities that will be taken up by the OPM and the Council of Ministers once a political agreement is reached, and to discuss issues of GOZ/donor coordination, as well as international plans for providing economic recovery assistance. On October 1, the UNDP and the World Bank revived the Imba Matombo Consultative Forum, which is intended to facilitate convergence of multiple stakeholders on analysis, constraints, and policy options facing Zimbabwe. At the half-day seminar, UNDP presented the "Comprehensive Economic Recovery in Zimbabwe - A Discussion Document," which lays forth a long-term economic recovery and development program. A summary of each of these three meetings is provided below. END SUMMARY.

DONOR RE-ENGAGEMENT: GETTING ON THE SAME SONG SHEET

¶12. Harare-based heads of assistance agencies met on September 25, regrouping after the summer holidays and assessing appropriate responses to political events in Harare. The meeting also sought to follow up on the last donor conference in Stockholm and plan for the upcoming high-level donor meeting in Ottawa (now scheduled for October 30). In addition, the all-day meeting provided an opportunity to clarify and consolidate thinking on what re-engagement with the Government of Zimbabwe (GOZ) will require should the recently signed power-sharing agreement bear fruit. It was agreed that the outcome of the meeting should be a presentation for the Ottawa Donors' Conference.

¶13. The UK's representative for the Department for International Development (DFID) presented an outline of a recovery plan which put forward three scenarios. The first was optimal - fully funded and

fast-tracked with full cooperation and buy-in from the GOZ. The second envisioned a slight lag in funding and more negotiation with the GOZ on reform, and the third was premised on partial reforms. The Mission will forward via e-mail the entire analysis. While the first scenario was shown to have the quickest impact and best recovery potential, the price tag of USD 300 million in balance of payments support is ambitious, as is the projected overall assistance requirement estimate of USD 5.1 billion over 5 years. This scenario depicts key stabilization actions taking place during the first 12 months with balance of payments support, technical assistance, and support for demobilization which would parallel GOZ steps to reengage the international financial institutions, stand up functioning ministries, develop an approach to deal with arrears, and demobilize militias. Clearly all of this depends upon the outcome of current negotiations, political will, and the ability of progressive forces to bring along the rest of the GOZ. The second scenario would be slower and socially more costly; donor response would also be slower. The third could very well lose any impact during implementation and donors would likely limit their support to humanitarian assistance.

¶4. Participants also discussed the sequencing of arrears clearance, possible involvement of regional actors such as the African Development Bank and South Africa in the process, steps toward HIPC (Heavily Indebted Poor Country initiative) status, the need for parallel efforts in key development sectors, and financing. Donors voiced concerns about the need for confidence building steps on the part of the GOZ prior to any major investment and harkened back to the donor principles agreed in previous donor meetings. Managing expectations was seen as critical as was coping with the reality that while all parties may want to be in scenario 1, the more realistic likelihood would be scenario 2.

¶5. The donors reaffirmed their commitment to the common principles and the need for a performance-based response. However, they also agreed that it would not be a neat process. All agreed that a clear commitment by the GOZ to put in place a number of immediate measures to build confidence and create the conditions for a just and transparent recovery process would be met with a process of donor re-engagement and program development consistent with the Paris Declaration on aid effectiveness. The confidence-building measures include a sound and credible program of economic stabilization in a context of peace and security. Although little can be done until there is a credible government in place, donor representatives agreed that one of the first steps would be to engage the government to set clear benchmarks. The ensuing process would combine helping the GOZ to meet the benchmarks and a clear response to achieving them. Donors emphasized the need for clear and consistent communication during this process as well as the development of a communications strategy. The group also proposed development of a transitional results matrix to enable joint monitoring of progress to ensure mutual accountability.

¶6. Immediate steps required for re-engagement were seen as: the complete re-opening of humanitarian space and assessment of needs; a firm commitment to the impartial distribution of humanitarian aid based on need; the immediate commencement of dialogue with regional and international financial institutions and major creditors, with a view to putting in place an internationally-approved economic stabilization process and an agreed course of action to tackle the country's arrears; an immediate end to political violence and intimidation, including the standing down and cessation of activities by militia groups and the release of all political prisoners; and, actions that will quickly establish the conditions for an open and accountable process of national reconciliation, including the lifting of all constraints on the media and an end to the harassment of civil society and human rights groups. Early tests of intent include: a credible political settlement, a credible Minister of Finance and Governor of the Reserve Bank, a credible budget, and a credible commitment to an internationally-supported stabilization package engaging the International Monetary Fund, World Bank, and African Development Bank.

¶7. The final point of discussion was how to structure the "architecture" for donor coordination as we move forward. All participants are signatories to the Paris Declaration on Aid Effectiveness which calls for coordination around a single, national plan for recovery and the establishment of lead donor arrangements.

It was agreed that while we are committed to that direction, the way forward will not be entirely clear until we are engaged with the GOZ. In summary, there is emerging clarity on how to go forward and continued consolidation around the donor principles. There is a coherence of view and agreement that open and frank dialogue is needed to ensure solidarity of action. DFID was tasked with consolidating the results of the discussions to present at the upcoming donor meeting in Ottawa.

TSVANGIRAI MEETS WITH HEADS OF DONOR AGENCIES

¶18. On September 26, Morgan Tsvangirai and members of his technical transition team and Government Strategic Unit, which has been established as an advisory and operational arm of the Office of the Prime Minister (OPM), met with the Policy Committee of the World Bank Multi-Donor Trust Fund (MDTF). The meeting was called by Tsvangirai to convey to donors the immediate priorities that will be taken up by the OPM and the Council of Ministers once a political agreement is reached and to discuss issues of GOZ/donor coordination, as well as international plans for providing economic recovery assistance.

¶19. Tsvangirai reiterated that his top priorities were to address the food crisis, stabilize the economy, and strengthen rule of law (with media reform, human rights, and governance sector reform at the top of the list). In particular, Tsvangirai requested assistance from donors to address the humanitarian situation, to provide policy guidance with regard to macro-economic stabilization (e.g., advice as to whether a currency board is appropriate, when to lift price controls, etc.), to develop the 2009 national budget (which needs to be submitted to Parliament by the first week of December), to reform tax administration, to provide for the needs of people who will be adversely affected by an economic recovery program, and to take stock of local level needs, including rehabilitation of water infrastructure.

¶10. Tsvangirai asked donors for a notional idea of forthcoming assistance. Donors responded that it was premature to discuss this information until an agreement is reached and benchmarks are met. The donor group presented the initial benchmarks that would need to

be achieved before recovery assistance could be provided, including unimpeded humanitarian access, freedom of the press, disarming of militias, freeing of political prisoners, and the announcement of an electoral roadmap. Donors noted, however, that they were in the process of increasing their humanitarian assistance to respond to the food crisis and non-food emergency needs. Tsvangirai took away from the meeting a strong understanding that he needed to manage public expectations about forthcoming international assistance and how quickly it would come. He also took away a greater understanding of the complexity, uniqueness, and time constraints of donor processes to approve assistance budgets and move money.

¶11. Donors used the meeting to make a number of key points. They urged Tsvangirai and his team to complete the 100 day plan as a matter of priority. It would serve as a document against which to contemplate assistance once conditions are right and to more fully understand the priorities of government. Furthermore, donors urged Tsvangirai to take a proactive lead with regard to donor coordination and to establish an office to oversee this responsibility. In addition, donors emphasized that once an agreement is reached coordination would need to begin with the whole of government, including ZANU-PF elements, versus only the MDC. Tsvangirai responded positively to each of these requests, noting that the 100 day plan is one of his immediate priorities and that he intended to appoint a team to interface with donors until the Ministry of Finance could be strengthened to take on this role.

¶12. At the conclusion of the meeting, all parties spoke of the usefulness of the discussion and the need to continue dialogue. Tsvangirai closed the meeting by reiterating his main takeaway points: 1) that he needed to get government in place and initiate reforms before donors could engage in recovery dialogue; 2) that he needed to complete his 100 day plan immediately, and that individual ministries needed to develop their own 100 day plans as soon as possible to assist donor planning efforts; 3) that he needed to

lower public expectations regarding the immediacy with which international assistance would be forthcoming; and 4) that he needed to work toward expanding donor dialogue to include relevant ZANU-PF individuals.

UNDP PRESENTS ITS LONG-TERM DEVELOPMENT PLAN

¶13. On October 1, the UNDP and the World Bank revived the Imba Matombo Consultative Forum, which is intended to facilitate convergence of multiple stakeholders on analysis, constraints, and policy options facing Zimbabwe. At the half-day seminar, UNDP presented the "Comprehensive Economic Recovery in Zimbabwe - A Discussion Document," which is the culmination of more than a year of research. The document summarizes the current situation and outlines necessary actions to spur economic recovery in the areas of macro-economic stabilization, financial sector recovery, private sector development, agricultural reform, and labor and human capital development. The research was facilitated by Dr. Mark Simpson, a UNDP consultant; Zimbabwean sectoral experts took the lead to draft the discussion document and define points of intervention. The forum, which was co-chaired by Dr. Agostinho Zacarias (UNDP Res Rep) and Dr. Mungai Lenneiye (Acting World Bank Country Manager), drew participants from the diplomatic corps, bilateral and multilateral donor agencies, the private sector, and the MDC.

¶14. The content of the document mirrors the points of sectoral intervention that have been discussed in other venues, including the MDTF and like-minded donor group. The recovery program outlined is intended to provide a long-term development plan whereas the World Bank's "Zimbabwe Economic Recovery Program" (ZERP) outlines an immediate emergency plan of action. The World Bank plans to implement the ZERP through a programmatic MDTF and the MDC has provided input into the MDTF process. It is anticipated that in time UNDP will request funding to pursue the programs highlighted in its report.

¶15. Highlights of the discussion include:

--Macroeconomic stabilization: The researchers underscored the need to remove price and exchange rate controls as well as capital controls on individuals, and to establish and publish money supply targets to reign in inflation. Post-stabilization, the researchers underscored the need to carry out a public expenditure review, establish and publish fiscal rules, conduct budgetary reviews, strengthen public financial management, and establish inflation targeting.

--Financial sector recovery: The researchers identified the lack of financial intermediation by commercial banks and the role now being played by the central bank, as an impediment to growth. Therefore, there is need to restore the central bank to its core mandate and constitutionally guarantee its autonomy. In order to achieve pro-poor growth there is also a need to increase access to finance for the poor by removing constraints on the operations of micro-finance institutions.

--Private sector development: The researchers highlighted that private sector development is being stifled by lack of foreign currency to import raw materials, out-migration of skilled workers, massive disinvestment, and diminishing competitiveness due to hyperinflation and an overvalued exchange rate. Therefore, it was suggested that attention be given to easing foreign currency constraints, improving the regulatory environment, rehabilitating and rebuilding productive infrastructure, workforce training, public private partnerships, and formulating a strategy for the private sector to participate in the global market place. It was noted that special attention should be given to the mining sector (which contributes 4 percent of GDP and 45 percent of exports) and to the tourism industry. The researchers also stressed the need to restructure and reform public enterprises, which have poor pricing policies and conflicting policy goals.

--Agricultural reform: Reform of governmental institutions was noted as a short-term priority as well as the need to announce pre-planting prices. The research team placed land tenure reform in

the communal areas as a medium to long-term need that would not be achievable until approximately 2015.

--Labor and human capital development: The researchers emphasized the need for civil service reform, vocational education, and programs that would facilitate the return of skilled professionals.

DHANANI